11-Jun-2019

Regions Financial Corp. (RF)

Morgan Stanley U.S. Financials Conference

CORPORATE PARTICIPANTS

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.

M. Deron Smithy
Treasurer & Executive Vice President, Regions Financial Corp.

MANAGEMENT DISCUSSION SECTION

Unverified Participant

I know it's a little short, right? Okay.

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

Yeah. It's good.

Unverified Participant

All right. Well, thanks everybody for joining us here for Regions Financial. I am pleased to have with us today John Turner, President and CEO of Regions; David Turner, CFO of Regions; and Deron Smithy, Treasurer of Regions Financial. Thanks so much for joining us today. I know it was...

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

My pleasure.

Unverified Participant

...not the easiest to get in here with a little cloud cover yesterday. So thanks for the flights in. I wanted to also get the audience revved up on Regions Financial and ask a couple of questions. We have a few polling questions that we're going to kick off with.

QUESTION AND ANSWER SECTION

Q

Okay, the first question is what would drive you to go long Regions Financial? A, rising rates; B, lower asset sensitivity; C, accelerating operating leverage; and D, loan growth beat, so a beat on loan growth? So we have rising rates, lower asset sensitivity, accelerating operating leverage or a beat on loan growth. What would drive you to go long Regions? Rising rates and accelerating operating leverage, interesting.

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

A

Good.

Q

Okay. Second up is ...

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

A

We like rising rates too by the way [indiscernible] (00:01:18)...

Q

That would be your [indiscernible] (00:01:18)...

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

A

...really good, yeah, yeah.

Q

We're not going to probability weight that though. Second question, when can Regions achieve its adjusted ROTCE target of 18% to 20%, which is up from 15.6% in 2018? Is that going to be A, B, C, D; one, two, three, four years? So take your – choose your answer. And we will see, it's a nice ROTCE target to have by the way. Okay, three years. Right. So, that gives you a sense as to where the investor base is this morning with regard to expectations. Maybe we could just kick off with the outlook here because, obviously, over the past couple of weeks, we've had – and even months, we've had a little bit of a change in curve structure. And we just like to understand is there any changes to your full year outlook, given how rates have been migrating or how loan growth has been trajecting here?

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.

A

Yeah, so I'll start and let Deron talk a little bit about the margin but for the year, we're still intact with what we – the guidance we gave, which was larger than 3.50% for the year and we finished the quarter at 3.53%. So, obviously, to average 3.50% for the year, you should expect that to decline some. We have day count issues in the quarter, they'll put some pressure on this next quarter. But that, yeah, it gets harder with all the volatility we've seen with rates but that's largely intact from a loan growth standpoint. We did change our guidance on loan growth to low to mid-single digits based on the outsized growth for the first quarter, that was higher than we expected.

We funded that loan growth with higher cost deposits, which put pressure on our NIM. We think that moderates as some of those customers that have access to the capital markets, actually choose that path. We've seen that last couple of years in the third quarter. We're not sure if that'll happen but that's historically what has happened. So we think that growth rate that we saw in the first quarter won't be there at that pace, but for the year, we think low to mid-single digits is intact.

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

A

I think that's well said. I would just add, the economy still feels pretty good in the markets that we're in. Our customers are more cautious than they were 60 days or so ago but they still have a positive outlook about the balance of the year and their performance. I do think because of the uncertainty, what we spend a lot of time talking about is focusing on the things that we can control, focusing on the fundamentals of our business, managing our expenses well, staying focused on soundness, profitability, good client selectivity. We think it's a time to be careful with all the uncertainty. We couldn't have imagined that rates would have moved as far as they've moved in the last 90 days. I suspect nobody else here could have either. They could move back just as quickly potentially. But fundamentally we think the economy is still solid. Credit quality is still very good but it is a time to stay focused, we think, on the fundamentals of the business.

Q

And expenses, stable, that's still in the...

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

A

Yes.

Q

...expectation and then to your point on the economy being solid, your net charge-offs, for example, I know 40 to 50 bps is the guidance, is there anything flashing yellow there or are you seeing really [indiscernible] (00:05:06)?

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

A

No, the only area of our loan portfolio that we've had any concern about has been the fast casual sector within our restaurant, Specialized Industries group primarily. And while we've seen some challenges there, there are some positive stories as well. That portfolio is about a $300 million plus or minus portfolio, the fast casual sector. Restaurant, in general, is about 2.5% of our total business services loan portfolio. So, not a significant amount of exposure but that's the one place, where we really spend a lot of time, focused on some challenges in that sub-sector if you will, otherwise, no.

Q

Right. Okay. And to deal with those challenges, you're really talking about a very small piece of the overall portfolio, right?

M. Deron Smithy
Treasurer & Executive Vice President, Regions Financial Corp.

A

It's not significant

Q

Right, right.

M. Deron Smithy
Treasurer & Executive Vice President, Regions Financial Corp.

A

But it is something that has been flashing yellow to me.

Q

Okay.

M. Deron Smithy
Treasurer & Executive Vice President, Regions Financial Corp.

A

Yeah.

Q

All right. So you have to dig that deep to find the yellow lights, right?

M. Deron Smithy
Treasurer & Executive Vice President, Regions Financial Corp.

A

Yeah, that's right.

Q

And then maybe just a little bit more on the NIM, just understanding NIM trajectory. I think, as you mentioned, you've got the 3.50% range, David, for the full year, with an expectation that – that's going to mean that 2Q NIM is a little bit lower and then 3Q, 4Q bounces back up a bit. Maybe you could speak to a little bit why you expect the NIM to move higher in 3Q and 4Q?

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.

A

Okay. And [ph] why don't we (00:06:30) talk even past 3Q, 4Q...

Q

Sure.

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.

A

...we'll talk about 2020 and 2021 because that's an important message for you, so [ph] why don't you (00:06:38)...

M. Deron Smithy
Treasurer & Executive Vice President, Regions Financial Corp.

A

Yeah. So, I'll start. So, as we've messaged, reaching an inflection point what it feels like on rates with, perhaps, the Fed, we were thinking pausing and staying at a level rate for a while. Now, perhaps, pivoting to potentially [ph] an ease at (00:06:59) some point, there's a natural progression that you see in the deposit book when you go through these inflection points. And as we've studied it historically, you generally see that there's, perhaps, as much as 12 months of continued remixing that you see in the deposit book following the last Fed tightening in a cycle.

So as we've mentioned, we've been going through that the first couple of quarters of this year. We expect some of that to continue here in the near term, which would put modest pressure on the margin in the near term. But we think that that sustains itself and our efforts to manage the balance sheet, manage the overall efficiency of how we finance ourselves in the – and the overall optimization of the balance sheet efforts will cause that to stabilize second half of the year and then we'll – what we have been messaging is that we've got a bit of a tailwind or have had a tailwind in terms of a re-pricing of the balance sheet both in securities and loans. We've messaged that that's 30 to 40 basis points.

When we gave that guidance coming out of the second quarter earnings, obviously, rates were materially higher than where we are today, that does change that trajectory a bit, but we still think that our overall efforts to manage deposit cost and overall efficiency of the balance sheet will allow us to stabilize the margin and put it on solid footing as we enter 2020.

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.

A

So, there was an expectation that there would be – the economy would slow a bit. We had 3% GDP last year, our expectation was GDP would be 2.5% this year, going to 2%, going to 1% over the next couple of years. So as a slowing was going to occur, we believe the risk of rate reductions were higher beginning in 2020. And so a little over a year ago, we began to put some protection on – to manage that [ph] a bit (00:09:01). And what's happened is, it's quicker than we had anticipated with regards to 2019. So our protection – and Deron, why don't you talk a little bit about the protection and what that looks like in 2020 and 2021?

M. Deron Smithy
Treasurer & Executive Vice President, Regions Financial Corp.

A

Yeah. Sure. So we've been working on trying to bring our asset sensitivity down closer to neutral for the better part of one to two years now, being very methodical and trying to move our position out on a forward basis closer to neutral over time. We pick 2020 as – looking back in 2018, we thought 2020 was a timeframe over which we thought the slowing economy could produce a need for the Fed to ease. And so we may be slightly off on that but we began our protection. It's laddered through a little bit in late 2019, most of it in 2020 and runs through 2025.

And it's a combination of interest rate swaps and interest rate floors. And we constructed that hedging program to do two things: one, allow us to continue to enjoy an expanding margin in a potentially rising rate environment but also begin to protect us if the Fed were to pivot toward an ease. And what we've been enjoying is low deposit costs over this tightening cycle. And as deposit costs have stayed low, well clearly if rates begin coming down, we have less room to bring them down. And so we used interest rate floors, struck at levels where we thought that the ability to bring deposit costs down started to be a headwind for us. And so the construct of the swaps and the floors in a flat rate environment, where the Fed does nothing is roughly a push. There's expense on the floors in the form of premium that we have to start to amortize. But there's positive carry on the swaps, those two roughly offset one another. And so in a flat rate environment, you see very little impact to our margin and growth in NII going forward. In a rising rate environment, we continue to enjoy the ability to see an expanding margin. And then we've got the downside protection if the Fed were to pivot to an ease.

Q

And your swaps and floors that kicks in, in full, in 1Q 2020, is that right?

M. Deron Smithy
Treasurer & Executive Vice President, Regions Financial Corp.

A

Yes.

Q

Okay. And so if the Fed cuts earlier than that, is there some protection against that or we wait till 1Q 2020 to get the protection?

M. Deron Smithy
Treasurer & Executive Vice President, Regions Financial Corp.

A

Well, we're certainly not defenseless, again going back to the construct, our initial defense against that is just bringing deposit cost down. And so there's a bit of remixing that is going on now, obviously, that we've referenced but we would have the ability to start bringing deposit cost down if the Fed were to ease. And I think that that would help us maintain. There would be an incremental margin pressure from that, but it would be short lived and very manageable. And we think we can still stay within the guidance that we've given, not the 3.50% full year guidance, but the longer-term guidance that we've given, 3.40% to 3.70%, even if the Fed were to ease this year...

Q

Right.

M. Deron Smithy
Treasurer & Executive Vice President, Regions Financial Corp.

A

...we still think we have the ability to stay within that. And then, obviously, in 2020, once our hedges kick in, we're on much more solid footing.

Q

Got it. Okay, great. That's very helpful. Thank you. Maybe we could shift to talking a little bit about capital optimization? John, I know that in Investor Day, you spent quite a bit of time talking about that. And since Investor Day, we've seen some of the effects of that strategy. You've exited insurance and indirect auto, recently the GreenSky relationship. Maybe help us understand how far along the exits you are. Is there much left from here? And how are you putting that capital back to work? Maybe speak a little bit about...

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

A

Yeah.

Q

...recent acquisition that you did?

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

A

Yeah, I think our focus on risk-adjusted returns, capital optimization has been really important across the business generally, whether it'd be remixing our Shared National Credit portfolio, exiting certain loan portfolios over time like an office building as an example, where we thought the returns were marginal, exiting some of the construction lending activity we were doing. All those things align with our desire to make sure that we're using our capital as best we can, we're getting appropriate returns for the risk that we take.

We made the decision to exit indirect auto and to not renew our GreenSky agreement for the same reasons. David likes to say profit zones open and close. In indirect auto, our belief was that just we didn't see a future to profitability unless we were willing to potentially take more risk and we weren't. We don't – we're not a subprime lender, we don't want to be a subprime lender. And so our conclusion was, we should exit that business. That portfolio will run off over the course of the next two to three years, I think, more or less.

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.

A

Yeah.

M. Deron Smithy
Treasurer & Executive Vice President, Regions Financial Corp.

A

Yeah.

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

A

And so we'll see that play out today. Total exposures, about $2 billion.

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.

A

A little over $2 billion, about $2.7 billion.

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

A

The GreenSky relationship was also at a time very satisfactory. We got into that business for a couple reasons: One, we wanted to participate in the point-of-sale lending activity. We wanted to see how it worked, what it was about, the consumers were clearly preferring that channel and so we wanted to understand it. We felt there was an opportunity to build relationships with those customers, at least there was some potential. We wanted to see whether or not that was true. And over the course of the last couple of years, we have learned. But we've also learned that – we learned a lot about the channel, we've also learned that there really is not an opportunity to build relationships. As rates began to rise, returns weren't as good as they had been. We had an opportunity to exit. The contract that we have with them expires in November and so we decided to do that and to reallocate the capital into other parts of the business like commercial banking, where we have had a strong legacy business and one that we think we can continue to grow; like non-bank opportunities, capabilities. We just announced the acquisition of Highland Associates this week – I guess, last week. It's a small acquisition but again we pick up customers, we pick up talent, we pick up capabilities that we didn't have that allow us to expand the relationship that we have within the not-for-profit healthcare space, where we've been very active for a long period of time. We have a specialized lending group that's very mature and seasoned. We also believe that Highland had some relationships that we're not banking. And so the combination of their referral to our team, our team referral to them, we think, will allow us to grow that business. So those are some examples of things whether it'd be BlackArch Partners, First Sterling, acquiring mortgage servicing rights, all things that we want to do with the capital that we free up in order to continue to build our business.

Q

And should we expect more types of the, I don't know, if you want to call them bolt-on because...

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

A

Yeah.

Q

...it feels like there is a little bit more than that but should we expect more of that to come through?

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

A

I would say, in terms of priorities, we want to continue to build out the business. And so we're always looking to add capabilities to meet customer needs. And so, yes, we don't have anything currently in the pipeline but we're always looking. With respect to capital optimization and exits, we should always be evaluating our businesses, our portfolios, our branches, all at looking to optimize every part of our business. And that's an ongoing – should be an ongoing process as we seek to get better. Again, we don't have any exits in mind today but in order to effectively run our business, we need to be evaluating returns and the use of capital on a regular basis.

Q

Because you've been investing in expanding the wealth management and the capital markets business for many years now, right, this isn't obviously the beginning, this is continuation of a strategy that you've been pursuing for a while. Any other acquisition opportunities or [ph] lineups (00:17:45) that you'd like to extend into in the fee area maybe, in mortgages or other...

M. Deron Smithy
Treasurer & Executive Vice President, Regions Financial Corp.

A

Yeah, I would say, the mortgage business is one we've been investing in. We've added about 100 mortgage originators over the last year-and-a-half. So we've been a bit of a contrarian. We see that as an opportunity – this period of time as an opportunity to potentially gain share as others are shrinking their business. Our business has been heavily weighted to purchase finance rather than refinance, which is a little unusual, and part of that is the result of the good relationship that our branches and our mortgage originators have. Over 30% of the mortgages we originate come from referrals through our branch system. And we think that's a business that we have an opportunity to grow. We're a low cost servicer and so we've been acquiring mortgage servicing rights, where we have an opportunity to do that and we'll continue to look for those opportunities.

Q

So because of your low cost platform, you can potentially be a little bit better bidder but then...

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

A

That's right.

Q

...improve on the efficiency as you bring it onto your platform?

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

A

That's right.

Q

And before we get to capital, just a question on the target. So 9.5% CET1 target, which you're expected to get to in the next couple of quarters here, the question we get is, why carry such a high ratio? And I know you addressed this a little bit on a recent call but maybe just explain for the folks here. Why not 9%?

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.

A

Yeah, so, we get that question a lot. It's important to know how we built that up, so it's mathematically derived. We start at – [ph] this was (00:19:22) Common Equity Tier 1, so we start at 4.5%, we add a 250 basis point buffer to get to 7% and that's the limit that we set for ourselves after our severely adverse impact, because we want to not have to cut the dividend like we did in the crisis and so sustainability of the dividend is really important. And as you know, we're trying to get to 35% to 45% of earnings to be paid out in the form of dividend. We're a little below 30% for the year last year. So you should see that continue to increase.

So, protecting that and also not having to raise dilutive capital again would be – is in order. So set the limit at 7%. From that we've run our stress test and those stresses imply about 200 basis points that we add on to get to 9%, and that's mathematically what the answer would give us. We have made a decision to add 50 basis points for a management buffer given we're in [ph] 10 year (00:20:27) of an expansion. We have volatility in the marketplace. We can achieve our return metrics even with the extra 50 basis points of capital. And so to have a little bit of cushion for uncertainty to take advantage of opportunities should they come our way, be able to make loans when others can't because they're too tight on capital would be an example, we think gives us the flexibility we'd like to have. So, could we run lower? We could but there's no need to do that.

Q

Now, you don't have to do CCAR this year or any year.

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.

A

Well, we didn't have to do it this year, we'll do it next year. We did have to file a capital plan, which we have submitted. It goes through the governance, it goes through all the processes we've always had. We didn't change that at all. We just didn't have to fill out thousands of pages of templates to submit. There's an expectation that we have a robust capital planning process from our board [ph] on down (00:21:27) through John. And we're not going to give that up, that capital planning process has made us a better bank. We have better insight into loss forecasting as an example. And so we've kept that to help, to inform our capital distribution plans and we'll fill out CCAR for next year.

Q

But as I think about your comments on the divi, right, and the goal to have a little bit of a higher dividend payout ratio. Is that something that you expect is gradual over time or given that this year is not a CCAR official process, there is a little more opportunity to reach that goal or move towards that goal?

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.

A

Yeah. So we manage capital irrespective of whether there's a regulator out there in the CCAR process, that's not how we think about it. We manage capital the way we think we need to manage it. And so we've made the decision to have a 35% to 45% payout because at those levels that is sustainable in any plausible downturn that we can come up with. And so we've been at the low end of that and there should be some expectation over time that we get that at least to the middle of the range. And when you don't have places to really put your capital to work, the economy's not giving that, maybe that payout ratio is a little higher in times like that.

What we like about today not having to file CCAR is the ability to manage capital every quarter the way that we want. So if loans aren't growing as fast as we had anticipated, we can buy more stock back. If loans are growing opposite then we would not buy back as much. So, managing to that 9.5% is what investors really ought to think about because – and it may not be perfect but it will be close to that 9.5% which we'll get there in the third quarter.

Q

Got it. Well, at 8.5 times 2020, your stock seems to not reflect the fact that you've got a very strong capital base and rising dividend payout, so I'll just throw that in there.

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.

A

Thank you. [ph] I think (00:23:34) we agree.

Q

Maybe we could talk a little bit about your branch footprint, John, and get a little bit of an understanding as to how you're thinking about investing in the branch footprint, in your footprint which is obviously Southeastern up through kind of Central U.S....

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

A

Yeah.

Q

... that's how I would describe it. In about half the MSAs, top five, and in the other half, you're in 5 to 10 share in terms of deposits. Is that a metric that matters to you? And maybe you could give us a sense as to how you're thinking about managing your investment in the branch?

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

A

Yeah. It's a metric, I mean think share's important. And in the markets where we have significant share, we do really well and those that we don't we're trying to figure out how to get share and to grow the business. We have closed approximately 250 branches since 2013, and despite that, have grown consumer checking accounts every year from now for – we're in our seventh year of growing consumer checking account. So, we feel like we're doing a good job of optimizing the branch system. We've recently made some changes in our branch footprint in St. Louis as an example, closing branches, building new branches and improving our access to customers by more than 10%. So 10% more customers, more than 10% more wealth amongst those customers and as a result we're seeing growth there.

Our business is still principally in seven Southeastern states, Florida, Alabama, Mississippi, Louisiana, Georgia, Tennessee and Arkansas, concentrated heavily in Alabama, Mississippi and Tennessee. So, markets like Mobile, Jackson Mississippi, Birmingham, Huntsville, Nashville, Memphis, we have number one, two market share. That's really the core of our platform. But we're investing in places like Atlanta, Orlando, Houston and St. Louis. And what we're beginning to see is a growth rate that is better than two times the company's growth rate. So the company is growing at 1.3%, in Atlanta we're growing more than two times faster than that. Same thing is true in Orlando because we're able to place our branches in key locations, right locations. We're adding wealth talent, we're adding commercial banking talent. We think the combination of all those things is leading to a good return on our investment. We will close over the next three years about 100 branches and open 75. And the bulk of those openings will be in those markets that I mentioned, Houston, Atlanta and Orlando as we reshape those footprints.

Q

And when you're in there on the loan side, you're leading with commercial, is that right?

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

A

Strictly commercial banking, yeah. But our businesses, and we talk often about the way our bankers team together and some of you hear us talk about our Region360 (sic) [Regions360] approach to banking. That teaming approach is, we think one of the things that differentiates is the way that we do that. And so we believe it's important not only to build branches but to make sure that we have wealth bankers and commercial bankers in the markets who can help leverage that investment that we're making.

Q

Okay. And from the branch deposit perspective, is your growth strategy purely organic or is there any interest in inorganic as well?

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

A

Well, I think there'll be opportunities that come along that may be of some interest to us. We've said pretty repeatedly that bank M&A is not in our future at least currently. Economics aren't good. More importantly we think we have real opportunities to improve our business through our Simplify and Grow initiative and so M&A would be a distraction for us. On the other hand, there may be some divested deposits that we would have some interest in whether it be as a result of the SunTrust BB&T merger or some other event, we'll certainly pay attention to that because gaining more customers in markets that we're in, we think, is clearly advantageous to us.

Q

All right.

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

A

But primarily our growth strategy is focused on organic growth, continuing to improve the customer experience, supplementing the quality of our bankers and the relationship we build with high quality technology. We think if we do those things, we can be very competitive.

Q

Maybe you could speak a little bit about that technology, what you're doing on that front to attract and retain in particular the consumer side because deposits being a core part of your franchise and a key differentiator, I get some questions on what you're doing there not only to grow the accounts...

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

A

Yeah.

Q

... digitally but also protect yourself from folks that are digitally entering your markets?

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

A

So we'll spend $625 million this year on technology. 42% of that spend will be on new initiatives, new processes, new capabilities. And we have fully digitized, as an example, our consumer lending process and so today roughly 62% or 63% of all of our mortgage applications are completed online. 51% of our direct consumer loans are originated online and closed via e-signature. So a customer never has to come into a branch, actually never has to talk directly to a banker because of the way the process works. We think that's a capability that fewer than 25% of our competitors have based upon research and data that we've done. We continue to invest in our mobile app and in our online banking platform. We're developing voice capabilities and actually may introduce those later this year...

Q

Interesting.

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

A

...which we think is very interesting. Some of you've heard us talk about the way we're using artificial intelligence in the call center to field calls and as a result of that, we've reduced head count by over 55 people in the call center and are more effectively answering calls. We're using artificial intelligence to [ph] inform (00:29:35) what we call next best offer through a capability that we've affectionately named ROSIE, but our branches and our contact center are using that technology as we talk to customers, helping us identify what we should next talk to the customer about based upon their potential preferences, similarities to other customers.

So we're excited about all the technology that we are developing and are using in our business. We think that we are very much keeping up with our larger bank competitors. We're often asked, do you have the scale to compete? We believe we do. And when they asked why we believe that, I'll point back to we're growing consumer checking accounts, we're growing consumer demand deposits, our brand favorability is very high. Customers' willingness to refer us to another friend or a relative is very high. And so those things, to me, are proxies for the quality of our consumer banking offering. If we weren't growing, I'd be concerned. But the fact that we're growing and growing despite closing 250 branches, I think, is pretty powerful.

Q

You mentioned at Investor Day that roughly half, I think it is, of the new checking customers that you're getting...

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

A

Approximately half of the new accounts we're opening up for individuals who are 30 years of age or younger.

Q

Right. How are you doing that?

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

A

Well, I think the technology has a big impact on it. We're also in a lot of markets where – we're in a lot of university markets, we're in a growth area, where there are a lot of younger people. We do have a strong brand across a good portion of our footprint. I think brand favorability still matters. We've got – branch locations still matter even though those under 30 year olds may not use us a lot, brand favorability is driven, I think, in part by the density of our branch footprint. And, again, I think the quality of our technology offering combined with density of the branch footprint and brand favorability help drive acquisition.

Q

I'll see if there's any questions from the audience here. If anybody has a question, raise their hand, okay. Yeah, over here.

Q

The commentary in fast casual having some issues, we've heard that from other folks as well. Can you maybe just provide some color as to what you're seeing on the ground, what's going on and what are the drivers that's really changing in that landscape to create some of the yellow warning signs there?

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

A

Yeah, it appears to us that customer preferences are changing. I mean, much like we see in other businesses, customers aren't necessarily willing to come into a fast casual restaurant, be seated and have a one hour dining experience. They either are going up market to a nicer dining experience if they're going to spend an hour, they want better quality food, better service, or they want things faster, they want things more conveniently. And so they're using Uber Eats or they're using whatever other – having food delivered to their house. Just different preferences I think and lifestyle habits are what's really affected that sector. The other thing is there are lots and lots of brands and choices in that space. I think there probably has been an overabundance of different themes that have been developed over time and I think that's had some pressure on that sector as well.

Q

Okay, thanks. Maybe we could speak a little bit about Simplify and Grow.

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

A

Yeah, sure.

Q

Just give us a sense as to how much is left to do, because I know you've been involved running this for a little bit of time here. Is there anything left [ph] to fall on (00:33:27) the bottom line? You've got the adjusted efficiency target of under 55% by 2021, which suggests about 300 basis points of improvement from here.

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

A

Yeah.

Q

So that's quite a bit in a short period of time, so maybe you could help us understand what the drivers are going to be to get there and how much [indiscernible] (00:33:44).

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

A

Yeah, the Simplify and Grow was born out of the idea that two years or a year-and-a-half ago or so when we were benefiting from rising rates, we're benefiting from really good credit quality, but that benefit wasn't going to last. The business was changing. We had to find ways to make banking easier, more convenient for our customers. At the same time we believed that efficiency was going to be a really important aspect of the business, we're going to have to become more efficient consistently in order to effectively deliver returns for our shareholders over time. And so we kicked off the Simplify and Grow initiative. It's really about continuous improvement. We want to say it doesn't have a beginning and an end. It really needs to be about how we think about getting better every single day.

We initially had 45 strategic initiatives or opportunities identified through Simplify and Grow. In 2018, we completed 12 of those. And I would tell you that we probably saw maybe 20% of the impact of what we think the whole – those 45 initiatives will have on the bank. Last year, we vacated about 700,000 square feet of space. This year, our objective is to vacate another 700,000 square feet of space. 80% of that is non-branch space. So it's a datacenter, it's big buildings that used to be main offices of banks and smaller communities, it's office space and downtown office buildings, where we're currently located. How do we continue to consolidate that and reduce cost and we think there's opportunity to continue doing that.

Vendor spend, we reduced by $11 million last year, we think we'll get to over $30 million this year and maybe $60 million by the end of 2021, but that's a continuous effort. Head count, FF&E, branches, all things we continue to work on. Process improvement, I mentioned earlier in the call center we're using artificial intelligence, we've reduced head count by 55. I talked to last night about a smaller thing that we were able to do in the call center using again artificial intelligence for QA function and we reduced head count by 10 people. That's about a $500,000 or $600,000 savings probably, but those things continue to add up and suddenly it becomes $1 million and it's $2 million and it's $10 million. And so, we think there's just a lot of opportunity to continue to improve so that we can make investments in our business and we view it as a cycle of continuous investment. We reduce costs through process improvement, use of technology and then we're able to reinvest. So, more to come there.

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.

A

You've talked about [indiscernible] (00:36:40) so our revenue target for the year is 2% to 4%, that's still intact and relatively stable expenses. And so we're having to overcome the investments on the expense side, overcome the investments we want to make and the natural inflation that we have baked in, merit increases and the like. So if we can continue to do that over the next three years, you can mathematically get to the 55%. We know it's a challenge, we put it in the Investor Day slide knowing it was a challenge, but achievable with a lot of effort. And so, to John's point, staying fixated on continuous improvement. What's exciting about it is, [ph] you just heard of (00:37:22) $500,000 or $600,000 save and you go, $500,000 or $600,000, you guys are $129 billion in assets and whoopee-do. We can get the masses focused on $1 million here and $1 million there, that matters. And that's music to a finance person's ears when $1 million is a lot of money.

Q

Well, it also sounds like from the list that you gave us that we have, I don't know, are you 20% of the way through actually benefiting from the activities in Simplify and Grow?

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

A

I would say so and that's a swag but that's my sort of sense of it. Now, remember that we're planning investments that will be financed with some of the savings that we expect. And so our ability to tell you we expect to hold expenses relatively flat is a function of how much progress we make on our Simplify and Grow savings initiatives and revenue initiatives, we have some revenue initiatives that we are in.

Q

And if revenues are a little towards the lower end of that 2% to 4%, is there other levers that you would pull on the expense side to hit the 55% over time?

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

A

Well, yes, I mean we're committed to the 55% efficiency ratio. Revenue is an important part of that. And so to the extent we don't get the revenue growth we expect, we may have to lean in a little harder on expenses, but we're committed to get to that number. Fundamentally, we think that the business and the trajectory of the industry is we've got to be more efficient over time to deliver the right returns for our shareholders.

Q

Got it. So when I'm thinking about EPS growth, obviously, you've got balance sheet growth led by deposits but then operating leverage is a key driver for you.

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

A

Yes. Very much.

Unverified Participant

Well thank you very much for joining us this morning, appreciate your time, John, David and Deron. Thank you so much.

John M. Turner, Jr.
President, Chief Executive Officer & Director, Regions Financial Corp.

Thank you.

David J. Turner, Jr.
Senior Executive Vice President & Chief Financial Officer, Regions Financial Corp.

Thank you.

M. Deron Smithy
Treasurer & Executive Vice President, Regions Financial Corp.

Thanks.